



BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES
Chairman

GARY PIERCE
Commissioner

PAUL NEWMAN
Commissioner

SANDRA D. KENNEDY
Commissioner

BOB STUMP
Commissioner

Arizona Corporation Commission

DOCKETED

SEP 28 2010

DOCKETED BY

nr

IN THE MATTER OF THE APPLICATION
OF ARIZONA PUBLIC SERVICE
COMPANY – REQUEST FOR
CLARIFICATION AND MODIFICATION
OF RESIDENTIAL INCENTIVE

DOCKET NO. E-01345A-09-0338

DECISION NO. 71913

ORDER

Open Meeting
September 21 and 22, 2010
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Arizona Public Service Company (“APS”) is certificated to provide electric service as a public service corporation in the State of Arizona.
2. On August 2, 2010, Arizona Public Service Company (“APS” or “Company”) filed an application asking for clarification of certain provisions in Decision No. 71686, dated April 30, 2010. That decision authorized APS to approve reservations for residential photovoltaic (“PV”) installations during the last quarter of 2010, but those reservations would be paid for with 2011 incentive funds in 2011.
3. Decision No. 71686 did not provide any limitations on the amount of 2011 funds that APS could commit during 2010. The two major issues raised in this docket by APS are the amount of 2011 residential incentive funds that should be committed during the last quarter of 2010 and the amount of the residential PV incentive.

...

1 4. In Decision No. 71686, the Commission established three funding cycles for
2 remainder of 2010. Funding Cycle 1 of 2010 was from April 1 to July 1, 2010. Funding Cycle 2
3 is from July 2 through October 1, 2010. Funding Cycle 3 is from October 2 through December 31,
4 2010.

5 5. APS requests approval of the use by APS of a proposal set forth in the APS 2011
6 RES Implementation Plan that was submitted on July 1, 2010. If approved, this proposal would be
7 applied during Funding Cycle 3 of 2010.

8 6. The APS proposal is to implement a reduction in its residential incentive for grid-
9 tied PV systems to \$1.75 per watt at the time that the Company begins to commit its 2011
10 residential incentive funding.

11 7. APS is requesting that the Commission limit the number of reservations, using 2011
12 funding, that can be initiated in the last quarter of 2010 to 600 reservations. APS also asked for
13 approval that each Funding Cycle of 2011 be capped at 600 applications. APS contends that this
14 would allow the Company to maintain a stable residential incentive program, and would allow
15 customers and installers to plan effectively.

16 8. To assure transparency now and into 2011, while the Commission's review and
17 determination of the APS 2011 REST Plan is pending, APS intends to notify customers of
18 incentive levels consistent with those proposed in the 2011 Implementation Plan.

19 9. This proposal would establish the residential PV incentive at \$1.75 in the fourth
20 quarter of 2010 with market-driven triggers for future incentive decreases. In this APS
21 "tranch/step-down method", these triggers would activate a reduction in the residential PV
22 incentive at each 8 MW of reservation commitments by APS. The first three automatic incentive
23 reductions would be \$0.15 per watt followed by \$0.10 per watt step-downs in later years. Details
24 of the market-driven trigger mechanism are included in Exhibit A of the Arizona Public Service
25 Renewable Energy Standard Implementation Plan, 2011 to 2015, on Pages 17-19, copies of which
26 are included in Appendix A of the Memorandum.

27 10. In addition to the proposed market-driven trigger, APS proposed the initiation of a
28 "rapid reservation" mechanism and the removal of the customer incentive payment cap of 50

percent of the total system cost. In the rapid reservation offering, APS would, throughout a funding cycle, confirm all grid-tied residential PV applications that request a \$1.00 per watt incentive, which would put them ahead of all others in the reservation queue.

11. APS believes that approximately \$4 million of additional funding might become available, due to project delays or cancellations, through year-end 2010. APS proposes that any additional 2010 funding that becomes available be paid at the \$1.95/watt incentive level. APS stated that an additional \$4 million in funding would provide enough incentives for approximately 285 new reservations.

12. APS is requesting that the strategy for residential DE incentives proposed in the Company's 2011 RES Implementation Plan be adopted for the 2010 Funding Cycle 3, where Funding Cycle 3 of 2010 effectively becomes Funding Cycle 1 of 2011, with a cap of 600 reservations for 2011 Funding Cycles.

13. APS, in its 2011 REST Plan filing, requested approval that the first Funding Cycle of each Plan year would occur during the final quarter of the proceeding calendar year. In other words, APS would repeat the final quarter funding mechanism that it is requesting for 2010 in the fourth quarter of 2011. This pattern would be repeated in future years.

14. On August 16, 2010, APS sent Staff updated figures on requests for Funding Cycle 3 incentives. APS had received close to 1,000 requests for incentives of \$1.95 as of August 16, 2010. Details of those requests as well as a summary of 2010 reservations and incentive payments are included in Table 1.

Table 1: Residential PV Reservations & Incentives			
Funding Cycle	Reservations or Applications	Incentive Payments (millions)	MW/MWh Reserved or Requested
1st Quarter 2010	2,524	\$33.0	7.17 MW
Funding Cycle 1 (April 1 – July 1, 2010)	296	\$4.985	2.23 MW
Funding Cycle 2 (July 2 – October 1, 2010)	465	\$7.60	3.4 MW
Funding Cycle 3 (October 2 – December 31, 2010)	991	\$13.23	6.71 MW
TOTAL	4,276	\$58.8	19.51 MW or 33,076 MWh
Annual Projections in 2010 RES	n/a	\$44.10	~29,440 MWh

1 15. On August 25, 2010, American Solar Electric ("ASE") filed comments on the APS
2 application. ASE expressed "significant" concerns with the APS proposal. ASE recommended
3 that "short-term actions be taken" to reduce the back-log in residential PV systems in order to
4 allow additional time for review of the APS 2011 REST Plan.

5 16. ASE recommended the following:

- 6 • Allocate the \$4 million in additional 2010 funding and reserve the first 285
7 systems at an incentive of \$1.95.
- 8 • Allocate \$3.2 million in uncommitted funds from 2009 for additional
9 reservations.
- 10 • Review the ability to reallocate uncommitted Production Based Incentive
11 ("PBI") funds, by month, in Funding Cycle 3.
- 12 • Reallocate any unspent funds from the \$20 million school funding program.

13 17. ASE believes that funding 2010 applications with 2011 funds "could create a
14 precedent that could be harmful to the industry."

15 18. Staff has reviewed the application by APS and the proposed strategy for residential
16 DE incentives in the APS 2011 REST Implementation Plan.

17 19. Staff has reviewed APS' request for a \$1.75 per watt residential PV incentive for
18 Funding Cycle 3. The fact that APS has received almost 1,000 requests for incentives at \$1.95
19 shows that the \$1.95 incentive is seen by homeowners as a very valuable incentive. In order to
20 incent as many PV projects as the funding will allow, Staff believes that the APS proposed \$1.75
21 incentive is a reasonable reduction. In fact, APS may well receive hundreds if not another 1,000
22 applications in the last four months of 2010 at the \$1.75 level. Staff believes that setting the
23 Funding Cycle 3 incentive at \$1.75 is a prudent step toward avoiding the "rush" for lucrative
24 incentives that APS and many other utilities experienced in late 2009 and early 2010.

25 20. Staff agrees with APS in its request to fund the final quarter of 2010 with funds of
26 the first quarter of 2011, due to the problems experienced in early 2010 with residential PV
27 incentive funding. Staff does not agree that this tactic is necessarily appropriate to be repeated in
28 future years. Such a decision should be made as part of the deliberations on the APS 2011 REST

1 Plan. Staff recommends that APS' request to repeat the movement of first Funding Cycle of each
2 Plan year to the fourth quarter of the previous calendar year be denied.

3 21. Staff has recommended that APS be allowed to reserve a maximum of 600
4 applications during Funding Cycle 3 using funding from 2011 at a \$1.75 per watt incentive level.
5 These 2011 funds would be payable no sooner than January 2, 2011. Staff also recommends that
6 APS be allowed to reserve up to 300 additional applications at the \$1.75 per watt incentive level in
7 Funding Cycle 3 using additional 2010 funding that may become available during Funding Cycle
8 3. These additional 2010 funds would be payable in 2010 or 2011, depending on system
9 installation date and start-up.

10 22. Staff has recommended against approval of the proposal that each of the remaining
11 Funding Cycles for 2011 be capped at 600 reservations. APS' request for this approval goes
12 beyond the scope of this application, which clearly focuses only on Funding Cycle 3 of 2010.
13 Staff believes this issue should be discussed and decided in the APS 2011 REST Plan docket later
14 this year.

15 23. Staff believes that the APS tranche/step-down proposed for residential PV
16 incentives is an excellent way to respond to market forces and automatically adjust incentives in a
17 way that the solar industry and its customers can see clear signals about future incentive changes.
18 Staff believes that this APS approach is appropriate for use in the Third Funding Cycle of 2010
19 (October 2, 2010 – December 31, 2010).

20 24. Staff believes that this type of automatic "trigger" mechanism may be appropriate
21 for other utilities to consider for addition to their individual 2011 REST Plans.

22 25. Staff believes that the "rapid reservation" system proposed by APS will allow
23 customers willing to accept a \$1.00 per watt incentive to receive priority consideration, allowing
24 the customer to avoid a long queue and helping to spread the limited incentive funds over more PV
25 systems. Similarly, Staff believes that other utilities could benefit from adding such a "rapid
26 reservation" system to their 2011 REST Plans.

27 26. Staff believes that it is premature for APS to remove the current incentive caps for
28 residential projects. This issue should be discussed this fall as the APS 2011 REST Plan is

1 considered by the Commission. APS' request to remove incentive caps comes at a time when
2 many other utilities and cooperatives are proposing just the opposite: to lower their incentive caps.
3 No other utility has requested removal of incentive caps.

4 27. Staff agrees with ASE's comments that maximum effort should be made to fund
5 2010 residential PV incentives with 2010 funds. Table 1 shows the APS commitment for
6 residential incentives in 2010 will have increased from \$44.1 million to around \$58.8 million if
7 this application is approved by the Commission. Staff believes that it is appropriate to use funds
8 from 2011 to meet excess residential demand in 2010, while lowering the incentive to \$1.75.

9 28. Staff recommends that any additional 2010 funding, from cancellations or other
10 reallocations, in Funding Cycle 3 be allocated at the \$1.75 incentive level rather than the \$1.95
11 level proposed by APS. Having one consistent PV incentive level during Funding Cycle 3 will
12 avoid confusion among vendors and customers.

13 29. In summary, Staff makes the following recommendations:

- 14 • Funding Cycle 3 of 2010 (October 2 through December 31, 2010) effectively
15 becomes part of Funding Cycle 1 of 2011, with a cap of 600 reservations for
16 2011 funding to be committed by APS for the 2010 Funding Cycle 3. This
approval is a one-time approval only for 2010.
- 17 • APS' request, in its 2011 REST Plan, that the first Funding Cycle of each Plan
18 year be allowed to occur during the final quarter of the preceding calendar year
19 be denied in this application, but should be discussed when the whole APS
2011 REST Plan is considered by the Commission this year.
- 20 • For any commitments made by APS for 2011 residential DE funding in
21 Funding Cycle 3 of 2010, the incentive level for residential grid-tied PV
systems be \$1.75 per watt, payable in 2011.
- 22 • For any additional 2010 funding that may become available in Funding Cycle 3
23 of 2010, the incentive level for residential grid-tied PV systems be \$1.75 per
24 watt and APS be allowed to provide reservations for up to 300 applications
from that funding.
- 25 • The rapid reservation system proposed by APS should be approved for Funding
26 Cycle 3 of 2010.
- 27 • The APS tranche/step-down method for residential PV incentives be approved
28 for Funding Cycle 3 of 2010.

- The APS request to remove the caps on incentives be denied.
- The APS request for approval of a 600 installation cap for the remaining Funding Cycles of 2011 be denied in this application and be considered later this year in the APS 2011 REST Plan docket.

30. The Commission notes that, in the APS 2011 REST Plan, APS has proposed to credit \$3.2 million in unused 2010 Renewable Generation budget. The Commission believes that the \$3.2 million in unused funds would be better spent helping to reduce the current backlog in the residential PV waiting list. The \$3.2 million in 2010 funding should be paid out in 2010 prior to the use of 2011 funds.

31. While the Commission understands APS and Staff's desire to make the current incentives stretch as far as possible, and ensure that the program does not become overly strained, we are also cognizant of the concerns raised by various industry members regarding the expectations of solar customers and the need to maintain continuity in the incentive levels. As several individuals and organizations have noted, the Commission only recently stepped the incentives down from \$2.15 to \$1.95, and reducing the incentive further to \$1.75 for customers who have already made an application at the \$1.95 level could cause customer confusion and create administrative difficulties for the solar industry, which would be forced to retroactively alter contracts. Therefore, we will require APS to maintain the incentive at \$1.95 per watt for systems that have made application prior to or on September 20, 2010, and will require APS to implement the \$1.75 per watt for all systems making applications after that time.

32. While the Commission understands APS' interest in the rapid reservation system it proposed, we believe this proposed change merits further development and discussion. We will deny APS' rapid reservation proposal in this Application but hold it for further discussion when APS' 2011 REST Plan is considered later this year.

CONCLUSIONS OF LAW

1. APS is an Arizona public service corporation within the meaning of Article XV, Section 2 of the Arizona Constitution.

...

1 2. The Commission has jurisdiction over APS and over the subject matter of the
2 application.

3 3. The Commission, having reviewed the application and Staff's Memorandum dated
4 September 8, 2010, concludes that it is in the public interest to approve the modification to the
5 APS residential distributed energy incentives, as discussed herein.

6 ORDER

7 IT IS THEREFORE ORDERED that Funding Cycle 3 of 2010 (October 2 through
8 December 31, 2010) effectively becomes Funding Cycle 1 of 2011, with a cap of 600 reservations
9 for 2011 funding to be committed by Arizona Public Service Company for the 2010 Funding
10 Cycle 3. This approval is a one-time approval only for 2010.

11 IT IS FURTHER ORDERED that Arizona Public Service Company's request, in its 2011
12 REST Plan, that the first Funding Cycle of each Plan year be allowed to occur during the final
13 quarter of each preceding calendar year is denied.

14 IT IS FURTHER ORDERED that Arizona Public Service Company shall maintain the
15 incentive at \$1.95 per watt for all systems that have made an application prior to or on September
16 20, 2010, and Arizona Public Service Company shall implement the \$1.75 per watt for all systems
17 making an application after that time. Any commitments made by Arizona Public Service
18 Company for 2011 residential DE funding in Funding Cycle 3 of 2010, shall be payable no sooner
19 than January 1, 2011, and within 30 days of submittal of the customer-completed commissioning
20 packet.

21 IT IS FURTHER ORDERED that for any additional 2010 funding that may become
22 available in Funding Cycle 3 of 2010, and the system application was made prior to or on
23 September 20, 2010, the incentive level for residential grid-tied PV systems shall be \$1.95 per watt
24 and shall be paid out according to Arizona Public Service Company's Plan of Administration.

25 IT IS FURTHER ORDERED that the rapid reservation system proposed by Arizona Public
26 Service Company is denied in this application but will be further considered when Arizona Public
27 Service Company's 2011 REST Plan is considered later this year.

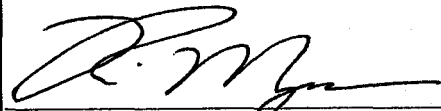
28

1 IT IS FURTHER ORDERED that the Arizona Public Service Company tranche/step-down
2 method for residential PV incentives is approved for Funding Cycle 3 of 2010.

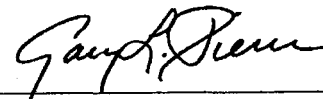
3 IT IS FURTHER ORDERED that the \$3.2 million in unused 2010 Renewable Generation
4 funds shall be allocated to PV residential incentives for 2010 to reduce the waiting list and shall be
5 paid out in 2010 prior to the use of 2011 funds.

6 IT IS FURTHER ORDERED that this Decision become effective immediately.

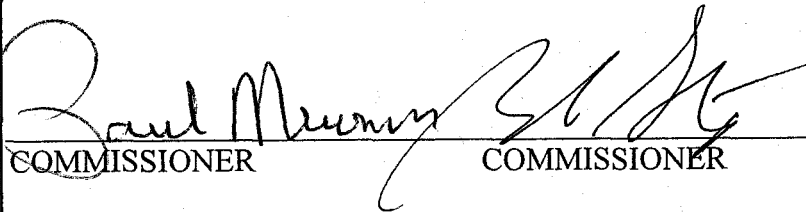
7
8 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

9 

10 CHAIRMAN



10 COMMISSIONER

11 

13 COMMISSIONER

13 COMMISSIONER

EXCUSED
COMM. KENNEDY

13 COMMISSIONER

14
15 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,
16 Executive Director of the Arizona Corporation Commission,
17 have hereunto, set my hand and caused the official seal of
18 this Commission to be affixed at the Capitol, in the City of
19 Phoenix, this 28th day of September, 2010.

18
19 

20 ERNEST G. JOHNSON
21 EXECUTIVE DIRECTOR

22 DISSENT: _____

23
24 DISSENT: _____

25 SMO:RTW:lhv\WVC
26
27
28

1 SERVICE LIST FOR: Arizona Public Service Company
2 DOCKET NO. E-01345A-09-0338

3
4 Ms. Deborah R. Scott
5 Pinnacle West Capital Corporation
6 400 North Fifth Street
Post Office Box 53999/MS 8695
Phoenix, Arizona 85072-3999

7 Mr. C. Webb Crockett
8 Fennemore Craig, PC
9 3003 North Central Avenue, Suite 2600
Phoenix, Arizona 85012-2913

10 Mr. David Townley
11 6811 West Okanogan Place
Kennewick, Washington 99336

12 Mr. Herbert Abel
13 15344 North 83rd Way, Suite 101
14 Scottsdale, Arizona 85260

15 Mr. Scott Wakefield
16 201 North Central Avenue, Suite 3300
Phoenix, Arizona 85004-1052

17 Mr. Michael Neary
18 111 West Renee Drive
Phoenix, Arizona 85027

19 Mr. Adam Browning
20 300 Brannan Street, Suite 609
San Francisco, California 94107

21 Mr. Steven M. Olea
22 Director, Utilities Division
23 Arizona Corporation Commission
24 1200 West Washington Street
Phoenix, Arizona 85007

25 Ms. Janice M. Alward
26 Chief Counsel, Legal Division
27 Arizona Corporation Commission
28 1200 West Washington Street
Phoenix, Arizona 85007